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## **OFFICE OF THE INDEPENDENT BUDGET ANALYST REPORT**

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**Date Issued:** July 25, 2008

**IBA Report Number:** 08-85

**City Council Docket Date:** July 28, 2008

**Item Number:** S401

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# **Ballot Proposition Amending the City Charter to Designate the Use of Lease Revenues from Mission Bay Park**

## **OVERVIEW**

Item S401 on the Supplemental Docket for the City Council meeting of July 28, 2008 requests the City Council to place a measure on the ballot to amend the City Charter, adding Section 55.2, that would require annual lease revenue generated in Mission Bay Park in excess of \$20 million be appropriated for public capital improvements in Mission Bay Park (75%) and in current and future Regional Parks (25%). This item was previously continued from the meetings of July 15 and July 22, 2008.

The IBA issued Report No. 08-75, dated July 11, 2008, describing the original proposed ballot measure. Since that time, additional input has been sought and revisions have been made to the proposal to incorporate suggestions that have been offered. This report highlights significant changes that have been made, which are reflected in the current version of the proposal dated July 23, 2008.

As described in the previous report, the IBA identified four issues for consideration, including earmarking of discretionary revenues, creation of new financial commitments, staffing and workload implications, and ability to issue long-term debt.

## FISCAL/POLICY DISCUSSION

### Significant Changes from Previous Proposal

Listed here is a summary of significant changes between the original and revised proposals. Not all revisions to the proposal are shown here. Several changes in the revised proposal have addressed concerns that have been raised, including minimizing the financial impact to the General Fund.

<b>SUMMARY OF SIGNIFICANT CHANGES COMPARISON OF ORIGINAL AND REVISED PROPOSALS</b>			
<b><u>Item</u></b>	<b><u>Original Proposal</u></b>	<b><u>Revised Proposal</u></b>	<b><u>Comment</u></b>
Definition of Regional Parks	Balboa Park, Mission Trails Regional Park, Otay River Valley Park, San Diego River Park, Multiple Species Conservation Program open space areas	Addition of Chollas Lake Park, Presidio Park, and coastal beaches along with coastal parks	Allows Regional Park Funds to be spent on added parks
Oversight Function	Park and Recreation Board and Mission Bay Committee	Two Oversight Committees named in measure; Park and Recreation Board and Mission Bay Committee will be designated by Council ordinance for this purpose	Essentially same; changes needed to address charter requirements
General Fund Threshold Amount	\$20 million	\$23 million – FY 10-14  \$20 million – FY 15 and thereafter	Revised proposal minimizes annual General Fund impact by \$3 million for first five years; loss of \$10.7 million beginning in FY 2015 for both proposals
Regional Parks Fund Minimum Annual Funding	N/A	\$2.5 million	Offset by reduction to Mission Bay Fund
Deferred Maintenance	N/A	Permits funds to be used for Deferred Maintenance to existing assets	Could minimize need for other funding in future
Reprioritization of Projects	N/A	Allowed if no substantial delay to higher priority projects	Provides greater flexibility to expedite projects
Park and recreation operations and maintenance	Required annual increases to parks O&M budget by same percentage increase in General Fund budget	Requires O&M for Mission Bay and Regional Parks areas to not be reduced disproportionately than overall P&R budget	Eliminates additional commitment of funds on annual basis for O&M

### Issues for Consideration

As described above, concerns remain about actions to reduce both General Fund revenues and budgetary flexibility by dedicating general purpose revenues for specific purposes, especially in light of economic uncertainty and budgetary constraints, and the City's inability to suspend these allocations in the event of a fiscal emergency.

The accompanying table shows the annual impact to the City's General Fund, under the original proposal. This table has been updated and revised since our previous report, and extends the number of fiscal years shown from four to seven. Over this period of time, the negative impact to the General Fund grows from \$5.8 million in Fiscal Year 2010 to \$11.7 million in Fiscal Year 2016, based on an annual growth rate of 3% to Mission Bay lease revenues, as described in the Mayor's Five Year Financial Outlook.

<b>COMPARISON OF ORIGINAL MISSION BAY LEASE REVENUE PROPOSAL</b>					
<i>Assumes annual growth of 3%; FY 2009 based on adopted budget</i>					
<i>Revised from previous IBA Report No. 08-75</i>					
FY	Estimated Lease Revenue	General Fund	Mission Bay	Regional Parks	Original Proposal Annual Loss to General Fund
			25%	25%	
2009	29,867,208	24,933,604	2,466,802	2,466,802	-
			75%	25%	50%
2010	30,763,224	20,000,000	8,072,418	2,690,806	5,763,224
2011	31,686,121	20,000,000	8,764,591	2,921,530	6,686,121
2012	32,636,705	20,000,000	9,477,528	3,159,176	7,636,705
2013	33,615,806	20,000,000	10,211,854	3,403,951	8,615,806
2014	34,624,280	20,000,000	10,968,210	3,656,070	9,624,280
2015	35,663,008	20,000,000	11,747,256	3,915,752	10,663,008
2016	36,732,899	20,000,000	12,549,674	4,183,225	11,732,899

The revised proposal includes changes which partially mitigate the fiscal impact to the General Fund. The revised proposal incorporates an increase to the General Fund threshold, or the share of the Mission Bay lease revenues retained by the General Fund, which reduces the negative impact by \$3 million annually for each of the first five years. The General Fund impact is minimized to \$2.8 million in Fiscal Year 2010, from the previous \$5.8 million.

After the five year period, the annual loss to the General Fund is projected to increase to \$10.7 million, starting in Fiscal Year 2015, as shown below.

<b>COMPARISON OF REVISED MISSION BAY LEASE REVENUE PROPOSAL</b>					
<i>Assumes annual growth of 3%; FY 2009 based on adopted budget</i>					
FY	Estimated Lease Revenue	General Fund	Mission Bay	Regional Parks	Revised Proposal Annual Loss to General Fund
2009	29,867,208	24,933,604	2,466,802	2,466,802	-
			75%	25%	50%
2010	30,763,224	23,000,000	5,263,224	2,500,000	2,763,224
2011	31,686,121	23,000,000	6,186,121	2,500,000	3,686,121
2012	32,636,705	23,000,000	7,136,705	2,500,000	4,636,705
2013	33,615,806	23,000,000	7,961,854	2,653,951	5,615,806
2014	34,624,280	23,000,000	8,718,210	2,906,070	6,624,280
2015	35,663,008	20,000,000	11,747,256	3,915,752	10,663,008
2016	36,732,899	20,000,000	12,549,674	4,183,225	11,732,899

Also reflected here are the estimated annual allocations to be made to the Mission Bay Fund and the Regional Parks Fund under the revised proposal, creating substantial revenues to be dedicated for park improvements. Under the revised proposal, current annual allocations of \$2.5 million would more than double for the Mission Bay Fund to \$5.2 million in Fiscal Year 2010, and significantly increase each year. After the initial five year period, the allocation to Mission Bay Fund in Fiscal Year 2015 would increase to \$11.7 million, while the Regional Park Fund would receive \$3.9 million.

The increase of \$3 million to the General Fund share results in lower allocations to both the Mission Bay Fund and Regional Parks Fund. The inclusion of a minimum funding level of \$2.5 million for the Regional Parks Fund shifts this impact more to the Mission Bay Fund, in order to ensure the Regional Parks Fund is guaranteed at least the same level of funding it currently receives under the existing Municipal Code requirements.

**[SIGNED]**

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